Tunstall, Richard Baylor

Our paper currency

Richmond

1896

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OUR PAPER CURRENCY.

. . . ADDRESS BY . . .

R. B. TUNSTALL,

Before Virginia Bankers' Association at Norfolk, Va., November 28, 1895.

RICHMOND:
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1895.

VIRGINIA BANKERS' ASSOCIATION,
OFFICE OF THE SECRETARY,
RICHMOND, VA., *December 2, 1895.*

DEAR SIR:

I have pleasure in enclosing you herewith a copy of the address delivered before the Virginia Bankers' Association, in Norfolk, Va., November 28th, upon the occasion of its annual meeting, by Mr. R. B. Tunstall, of Norfolk, Va.

The following resolution will explain to you my reason for forwarding you this address:

"Whereas the Virginia Bankers' Association having listened with pleasure to the splendid address of Mr. R. B. Tunstall, of Norfolk, and heartily endorsing the sentiments therein expressed; therefore, be it

"*Resolved*, That the profound thanks of this Association be extended to Mr. Tunstall for the address delivered upon 'Our Paper Currency,' and that the Secretary be instructed to have the same printed in pamphlet form, and forwarded, with a copy of these resolutions, to our representatives in Congress from the State of Virginia."

Trusting you may see fit to give the subject matter of Mr. Tunstall's address your consideration and attention, I remain,

Very respectfully,

S. G. WALLACE,
Secretary.

OUR PAPER CURRENCY.

The spectacle of a young and wealthy country, not fully developed but growing steadily and day by day, after thirty years of peace, and so large as to forbid the greater portion of its being subject to any general failure of staple crops, being brought to a point which it seems almost impossible for business to revive, is remarkable. Yet such for more than two years has been the sight presented of our country, of which we have been and now are so justly proud.

The inquiry into the cause or causes of this condition cannot fail to be profitable, if it be made in the proper spirit of a search after truth. But I would not myself undertake—certainty in the limits which good taste and a proper appreciation of your courtesy in asking me to speak before your Association would set—to go into all the sources of our business depression. I desire to say comparatively a few words upon a subject, which to my mind is one source of our woes, and which to bankers necessarily provokes interest. I do with hesitation and diffidence for I recognize that the experience of those before me would naturally and of necessity make them more competent judges of the matter than myself; and yet I know that at times those not trained in a certain system may be able to see features of that system, which are not evident to those within the charmed circle.

I therefore have concluded to invite your attention to a consideration of a few points of

OUR PAPER CURRENCY.

The subject is so vast and so varied that I fear an announcement will provoke alarm, but I promise to endeavor at least to be brief.

I shall not allude to our metallic currency, for that subject has been, I think, sufficiently ventilated. The campaign of education in that regard has been, in my opinion, completed. The people of this country have determined that they will not alone—by themselves—adopt the double standard at any ratio heretofore suggested, and no other nation has as yet determined to join us in such an adoption.

The great Copernicus, whose genius shed light upon every subject he considered, wrote in the beginning of the sixteenth century, as follows:

"However innumerable the scourges that ordinarily lead to the decline of kingdoms, principalities and republics, the four following are, to my mind, the most formidable: discord, pestilence, barrenness of the land and the deterioration of the money."

We are blessed in being singularly free from three of these scourges. Let us not inflict the fourth upon ourselves.

At present we have, without considering currency certificates issued in denominations of $5,000 and over upon the deposit by banks of legal tender notes, or clearing-house certificates, five different kinds of paper currency.

United States notes or greenbacks.

Treasury notes of 1890.

Gold certificates.

Silver certificates.

And National Bank notes.

Inasmuch as gold and silver certificates are represented by actual coin deposited in the United States Treasury, and therefore are but substitutes for actual money in actual existence, I shall not speak of them, for they may be considered as part of our coin currency.

There remain, therefore, to be considered, greenbacks, Treasury notes and national bank notes. Of these it is proper to consider greenbacks and Treasury notes together, for they are obligations of the National Government. And here it might be pertinent to inquire how and under what circumstances our National Government, being, as has been generally supposed, of restricted powers, has taken upon itself to issue paper obligations. Our charter—as the Constitution may naturally and properly be called, provides in express terms only that Congress shall have power "to coin money, regulate the value thereof, and of foreign coin," and a reading of the debates upon the formation of the Government will show that the power to emit or circulate paper money—certainly as legal tender—was omitted by design. I suppose that in 1860 and prior thereto, the Supreme Court of the United States would not have been divided in a decision that an Act making the promises to pay of our Government a legal tender would be unconstitutional. To my mind not even the result of our Civil War, nationalizing as it was, would have brought about such a decision. Doubtless, the centralizing influences of steam and electricity have contributed to the result.

But whatever we may think of this question as one of first impression, and however we may criticise the reconstruction—as it were—of the Supreme Court of the United States—almost with the

purpose of having such a decision promulgated—as a matter of fact, it is now established law that the United States Government in times of peace as well as of war, may issue currency notes and declare them to be legal tender as well for debts existing before the Act as for those contracted subsequently. Hence it follows that with us the question of issuing, or continuing to issue, legal tender notes is now no longer a judicial but a legislative question. We discuss no longer the legality, but the policy of such issues.

What then about the policy of such issues? For my part, I believe that so long as we have outstanding a large amount of United States notes, which by the terms of the law authorizing their issue are made legal tender for all debts, so long will we have instability, and so long will we be subject to sudden commercial crises, if not panics.

The functions of the United States Government are not those of a bank.

Its business is to coin money and regulate the value thereof, and consistent with the truest theories, it may also pass laws for the establishment of a safe and uniform currency for the country at large, for, in so doing, it provides for the "common defence and general welfare of the United States."

But certainly it cannot be maintained to be good policy for our republican Government—be its power what it may—to go into the banking business. It does this, however, when it issues promises to pay, which must be redeemed at some time, if good faith and solvency be preserved. And if, by any unfortunate circumstances, the Government may have in the past been forced or lured into making money of its promises to pay, it cannot be successfully denied that its wisest course now is to get out of the trap as soon, as as cheaply, and as creditably it may.

The functions of our Government in this regard do not extend beyond the collection of revenues and the disbursement of expenditures. The Congress of one year, unless composed of wiser men than have yet been seen, cannot foretell the needs of commerce during the coming year, and yet the Government issues cannot be curtailed or increased within that time.

The issuing of paper currency is distinctly a banking and not a governmental function.

The author of our National currency said in an opinion which reflected more credit upon him than the creation of the system, even though that were a wise war measure:

"There is a well-known law of currency that notes or promises to pay, unless made conveniently and promptly convertible into coin at the will of the holder, can never, except under unusual and abnormal conditions, be at par in circulation with coin."

But how can Government paper be so convertible always? Foreign complications, increased expenditures or decreased revenues, may each bring about such a result as to preclude the Government from redeeming them at once and promptly into coin. For the years 1888 and 1890, there was an average surplus of revenue of over $100,000,000. For the year from June, 1893, to June, 1894, there was a deficit of $69,000,000. What has been our experience in the last two years? Twice or thrice have we been on the verge of suspension, and such a catastrophe has only been averted by the issue of bonds.

Since I received your invitation to address you, the exportation of gold has been resumed, and while, in the opinion of many, it is due in a great degree to the large sales of exchange during the summer now maturing, yet the bare fact of seven millions of gold being sent abroad in the space of one short week, necessarily makes us pause.

Our Government is the only one, I believe, which professes to maintain the parity of all classes of currency, and it only does so because it is compelled by reason of its being in the banking business. Unwisely it has added issue to issue, until by the force of the "Gresham law," it has caused that form of currency, which is good the world over, to be sent away from us. While its policy of issuing currency notes is one of the causes leading to the exportation of gold, it at the same time, by reason of its promise to maintain the parity of all kinds of our currency, must seek the gathering in of gold. To obtain the gold, it has been necessary, and will ever continue to be necessary, to use its credit and increase its debt by the sale of bonds.

The increase of debt by the issue of such bonds has in a great measure counterbalanced the supposed advantage of a debt not bearing interest, but this has not in any degree been the measure of such financiering. You bankers know the sensitiveness of capital, and you can measure much better than a layman the loss of business, the paralysis of enterprise, and the utter stagnation that arises from a want of confidence. Is not confidence shaken when we see a state of affairs such as existed in October, 1894, and January of this year? To my mind the unseen results of weakened confidence outmeasure in a large degree the bad results even of an increase of nearly two hundred millions of debt.

The condition of the Treasury to-day is very different from what it was one year ago. It now has in its vaults $85,000,000 more than it had then, and yet an uncertainty as to the practicability of its being able to redeem its notes in gold creates distrust, which can easily develop into alarm.

A change of policy in obtaining revenue, however wise it may be, necessarily works a derangement until that change is put into working order. In the meantime revenues decrease and confidence is impaired—and immediately it is attributed to the change of policy, be it ever so wise.

And just here it may not be out of place to remark that the revenue derived from the Wilson bill exceeds that which was obtained from the McKinley bill. The policy of McKinleyism was to prohibit, and thus decrease revenue. And yet we see wild statements of our deficit being caused by a change of policy in our tariff. In 1888 and 1889, our Treasury was overflowing, and the balance had to be reduced. An effective mode was found in the triple alliance of increased pensions, the Treasury note of 1890, and the McKinley bill.

The issue of greenbacks was distinctly a war measure. It was a forced loan. Mr. Chase, at that time Secretary of the Treasury, was opposed to the legal tender feature, and was forced to agree to its being grafted upon the Act by its being represented as necessary to their circulation. They were not intended to be a permanent form of currency, but it was contemplated to retire and cancel them so soon as the necessity for their issue should cease.

Accordingly, the Secretary of the Treasury recommended to Congress in 1865, the year in which the war ended, that he be authorized to sell United States bonds, and with the proceeds gradually retire and cancel the greenbacks. And by Act of April 12, 1866, he was authorized to do this, provided that not more than $10,000,000 be retired and cancelled within six months after the passage of the Act, and thereafter not more than $4,000,000 per month. Under this Act about $48,000,000 were cancelled, and Mr. McCullough says of it: "So little did this reduction of the amount in circulation affect the markets that no one outside of the department would have known what was called contraction was going on but for the monthly published statements of the condition of the Treasury." This Act was suspended in 1866. And so the good work was stopped.

In 1869 was passed the Act entitled "An Act to strengthen the public credit," and in this Act which pledged the faith of the Government to the payment of its obligations in coin, there was this

provision: "And the United States also solemnly pledges its faith to make provision at the earliest practicable period for the redemption of the United States notes in coin."

In 1875 an Act for the resumption of specie payments was passed, and restrictions upon National bank note circulation were repealed, and redemption of legal tenders to an amount equal to 80 per cent. of the new bank circulation was allowed, provided the amonnt of greenbacks outstanding was not reduced below $300,000,000, and it was further provided than on or after January 1, 1879, the Secretary was to redeem the greenbacks when presented in sums of not less than $50..

It was supposed that the pledge of 1569 was to be redeemed—but not so.

On May 31, 1878, it was enacted: "That from and after the passage of this Act it shall not be lawful for the Secretary of the Treasury or other officer under him to cancel or retire any more of the United States legal tender notes. And when any of said notes may be redeemed or be received into the Treasury under any law, from any source whatever, and shall belong to the United States, they shall not be retired, cancelled, or destroyed, but they shall be reissued and paid out again and kept in circulation."

Thus the amount of greenbacks outstanding became fixed at $346,681,016.

The decisions of the United States Supreme Court declaring constitutional the Act making the Government promises to pay a legal tender, in peace or in war, for pre-existing or subsequent debts, have been adverted to.

The last decision in 1884 decided this Act of 1878 constitutional. I regard this as unfortunate, for unthinking people do not look upon the decision as only settling a constitutional question, but regard it as making the greenback a permanent institution with us, whereas the Court said it was a legislative and not a judicial question.

So much for the greenbacks.

The issue of the Treasury notes of 1890 was the result of a temporizing policy. The advocates of silver were pressing hard the believers in a gold standard, and the Sherman Act of 1890 was passed as a compromise. By it the Secretary of the Treasury was directed to purchase silver bullion to the amount of four million, five hundred thousand ounces of silver in each month and to issue bullion Treasury notes therefor.

These notes are made legal tender, and, like the greenbacks, are allowed to form a part of the reserve of the National banks. Under this law we have outstanding in round numbers about $140,000,000 of notes, and by its terms it is declared "the established policy of the United States to maintain the two metals on a parity with each other upon the present legal ratio, or such ratio as may be provided by law." Think of this, and can you wonder that capital shrinks and is timid, when our law-makers can impose such legislation as this upon us?

If I recollect aright, it was in his letter of acceptance in 1876, that Samuel J. Tilden declared that we could not resume specie payments unless we accumulated a reservoir of gold in the Treasury. The policy up to that time had been to sell gold for bonds, thus furnishing for campaign purposes the cry of decreasing the public debt and putting down the price of gold. The policy was a curious one, financially speaking. The bonds were not due for years, but there were outstanding the greenbacks which we were pledged to redeem as soon as practicable. What would you think of a merchant who discounted his paper which would mature in sixty, ninety, and three hundred and sixty days and allow his demand note go to protest? Yet this is what we did. And this is the policy which has fastened upon us the incubus of nearly five hundred millions of demand paper, as to $346,000,000 of which it is expressly provided it shall not be redeemed, but shall be paid out as soon as it gets into the Treasury.

Furthermore, the reserve of $100,000,000 of gold in the Treasury was established at a sufficient reserve for $346,000,000 of greenbacks. It now must stand also for the $140,000,000 of the Treasury notes of 1890. The latter was hardly sufficient for the single-faced monster, but when spread over the double-faced one, it becomes "monstrous thin."

What is the course pursued among wise and conservative bankers under these circumstances in the event of anything occurring to shake confidence? I imagine that you all feel that your first duty is to the institutions you serve. If, then, the reserve in the Treasury seems to be decreasing, you gather up your legal tenders and present them for redemption. You are paid in gold, and put your gold into your vaults. The Government must perforce pay out the greenbacks again, and shortly these same greenbacks are presented again. This is "the endless chain." This necessarily depletes the reserve, and thus confidence is shaken.

As to the remedy. I would say, in general, let the Government retire from the banking business as soon and as cheaply as possible.

For my part, I would favor the issuance of bonds to retire all the $500,000,000.

Of course, the first thing to be provided for is a sufficiency of revenue. So long as the outgo is greater than the income, we will be in trouble. The payment of debts may be irksome to the Government as it is to the individual, but if we are to maintain our place among nations and our self-respect among ourselves, it must be done.

Let then, first, an adequate revenue be provided; then repeal the Act of 1878, and let bonds be sold, and a limited amount of our legal tenders be retired each month, as was done under the Act of 1866. Of course the amount must be limited. The feature of these legal tenders constituting a part of the legal reserve for National banks, makes the problem more difficult. For being part of the banking reserve, they furnish the basis for business accommodation. To illustrate: A National bank having deposits of $1,000,000, must, outside of a few reserve cities, maintain a legal reserve of $150,000, or fifteen per cent. If this legal reserve is composed of legal tenders entirely, without regarding for the present the other liabilities or assets, it furnishes a basis for (say) $850,000 of business discounts or accommodations. Take away this legal reserve, and of course business accommodations must be curtailed by an amount greater than the amount of the reserve. Therefore, it being a basis for business accommodation, the withdrawal of it will mean more than the withdrawal of an equal amount of paper currency, which does not constitute a part of the reserve. But notwithstanding this, I imagine that quite a large amount could be retired each month without any appreciable effect on business.

I regard this course of retiring Governmental issues by issuing Government bonds as being more manly and just, than the plan of forcing banks to deposit these Government notes into the Treasury for the purpose of getting a note circulation of their own. The one is direct, while the other is indirect. Moreover, having them still uncancelled is dangerous in the light of past experience.

Of course in the retirement of the legal tenders—greenbacks and Treasury notes—the reserve held by the Government would be an available asset, and so also would be the accumulated silver bulion in the Treasury.

It would be found that a percentage—not very small of these legal tenders—especially of the greenbacks—has been lost and destroyed. This is a factor of which I could not make an estimate, but certainly it would be very appreciable.

But, whether we have assets in hand to assist the operation or not, and whether a portion of our outstanding bills payable have been burnt and destroyed or not, under any and all circumstances, we must determine that the Government is not a bank of circulation, and that it must not continue to act as such. This is business and not politics.

We have too much politics now. At least, let our banking be conducted on business principles.

It will be said, however, that any plan of this kind will result in too great contraction.

While in my opinion the bugbear of contraction has prevented many good schemes from being successful, and has more effect upon the imagination than it should, yet as confidence is closely connected with the imagination, and any plan which would impair confidence, would result in probable failure, there should be devised plans for an increase in bank circulation with the retirement of the legal tenders. As a matter of fact we had on the 1st of January in circulation of all kinds of money over $1,600,000,000, besides what was in the United States Treasury. A recent writer has stated that "By the policy of arbitrary issues we have swelled the proportionate supply of money beyond all normal requirements, the amount of currency having risen from $13.85 per head of population in 1860 to $24.00 in 1893." Checks, notes, and bills are used in making settlements beyond what was done in 1860; and I do not believe that the contraction produced by a gradual retirement of legal tenders would be felt.

Yet human imagination or sentiment is a factor which cannot be disregarded even in the cold fields of finance, and therefore it is desirable to provide for an additional issue of that form of our paper currency, which may be increased or decreased according to the demands of trade.

How then can we increase our bank circulation consistently with prudence?

This subject has received so great attention from the bankers of this country that it would be presumptuous for me to present any formulated plan.

I shall not weary you by making any attempt of the kind, but shall content myself with giving, in very general terms, a few of my views on the subject.

First of all, we must remember that "paper money, employed as an instrument of production" is a false and dangerous idea. It was in this sense, I believe, that Napoleon's minister declared: "The

Emperor regards paper money as the greatest scourge of nations, and as being to morals what the plague is in the physical order."

It is only a substitute—a representative.

Two ideas must always be kept in view. The bank circulation must be safe and it must be elastic. For thirty years we have had a bank circulation which is absolutely safe. Every bank note issued under our present system has had the great merit of being known to all men to be perfectly good. But that circulation has been dependent upon the deposit of a class of securities which we all hope will not always exist.

In this country it is not believed that "a National debt is a National blessing," and our policy has been to reduce that debt as fast as we could. As intimated before, the reduction has not always been made in the wisest mode, but however that may be, we all look forward to the gradual retirement of the bonded debt of our country. But as the bonded debt is reduced, and the price of the bonds advances, the profit to a bank to issue circulation by buying bonds at a premium and tying up a portion of its assets at a nominal interest becomes smaller and smaller. Thus it happens, and has happened, that while the Government issues have increased, the bank issues have decreased. The final result is certain. When our National bonds reach a price at which banks cannot profitably buy them and upon their deposit issue circulating notes, necessarily their circulation must rapidly decrease, until finally it ceases altogether.

This naturally suggests the question of whether a deposit of securities is necessary.

I do not believe that it is necessary, and the safety of the bank note, and its prompt convertibility into coin, can be assured without a deposit of securities. The principle involved in the deposit of securities is opposed—as it seems to me—to what is true banking, for it at once ties up a part of the bank's capital, when this capital should be free for the discount of paper.

Mr. Horace White has expressed the idea of the banking principle in his usual forceful style. He says:

"The banking principle affirms that all trade is barter that men would swap their goods and services directly, and without the use of money, if they could, but that since they cannot (owing to the complexity of human affairs), any machine which will do this is a saving and a gain to mankind.

"This is what a clearing-house does on a large scale, and a bank on a smaller one.

"A, B, C, and the rest of the alphabet, deposit the money they get for their various industries and services in a bank, and then draw their checks for what they want to buy. This is the same as though they deposited their various goods in the bank and gave to each other orders for goods, payable in kind at the bank.

* * * * * * * * *

"Now, the issue and circulation of bank notes is only an extension of the bank check system. It carries swapping by machinery one step further. * * * The bank note is the cashier's check on the bank. These cashier's checks circulate more widely than private checks, because the bank's credit is more widely known, and because they are of convenient form and size. They enable the community to make small exchanges—to do small swapping—without the use of real money. Since real money is capital, they economise the use of capital."

If the bank is compelled to use up its capital in order so get these notes, necessarily there is a waste. But if the bank can use its capital and its credit secured upon its other assets as well, then there is no waste at all. Experience has shown that bank circulation based upon credit may, by wise restrictions, be made as safe as circulation based upon deposited securities. The bank of the State of Indiana is an example: others will occur to any student of finance.

Comptroller Eckels, in his statement before the Committee on Banking and Currency, in December, 1894, said, in reference to the safety of the present National bank circulation:

"I venture the assertion that with the same set of men, following the same kind of banking, and under the same uniformity of the system and the same supervision as required by the public, by statements ever so often, to make reports or statements ever so often, prohibited from lending upon any asset which was not a quick asset, such as real estate, but carrying on a purely commercial business as the banks do, the same thing would have resulted, if there had not been a single dollar of security deposited here."

And again he stated:

"The Canadian notes are issued simply against the assets of the bank, coupled with which is a safety redemption fund. The redemption fund is simply for the notes of failed banks. The amount of it is five per cent. of the outstanding circulation. There has never been a Canadian bank note discredited, and never has one failed of redemption."

And again, Comptroller Eckels, on another occasion, said that "a tax on outstanding circulation of one-fifth of one per cent. would have repaid the cost of the National banks to the general Government, and a tax of one-fourth of one per cent. would have redeemed the notes of all failed National banks—in fact, a tax of two-fifths of one per cent. would have been ample to meet both the cost of that system and the redemption of the notes of failed National banks."

If such has been the experience under our National bank system, then with a safety fund provided by a tax upon the bank issuing circulating notes, and with all of the restrictions now imposed retained, and the bank note circulation constituted a first lien upon all the assets of the bank, there could be no doubt that the notes would be as safe and as current as the National bank notes of to-day.

Some, however, object to the provision of the notes being made a first lien on the assets. The same provision is virtually in force to-day. The bank to-day has to invest in bonds commanding a premium, in order to be allowed to issue circulating notes, and then can only issue notes equal to ninety per cent. of the par value of the bonds. Therefore the bank has of its assets more than the value of its circulating notes pledged to secure them. The notes are a first lien upon these bonds which, as I have said, are more valuable than the notes. Now if the bank is restricted to issuing notes to fifty or say seventy-five per cent. of its capital, the making of the notes a first lien upon its assets is not so severe upon the depositor as the present law, which allows notes to be issued equal to ninety per cent. of the capital.

The advantage of such a system is manifest. Assets are not tied up so as to be useless for business accommodation. Elasticity is secured, and banks can and will accommodate their circulation to the wants of trade.

But I fear I have trespassed too long upon your patience and forbearance.

The subject of the currency of our country is too large and too complicated to be treated of in the short space of one address, and all that I—or anyone can hope to do—is to contribute a mite towards National education upon the subject.

The true principles of finance are but little understood. Ignorance seems to be stalking abroad in the land. Populism has invaded our own fair State, and sometimes in the last thirty years the principles of honor, integrity, and fair dealing may have seemed to have been forgotten. But this cannot continue. The education of the people may be a long and tedious operation, but it is sure to come. The demagogue cannot succeed in deceiving them always. The American public is patient and long suffering, but it can be aroused, and when aroused is always right. We may draw our inspiration from the greatest of all Virginians who, in 1865, when the pall of defeat had settled upon him and his people, said he did not despair of the future—"The truth is this: The march of Providence is so slow, and our desires so impatient, the work of progress is so immense, and our means of aiding it so feeble, the life of humanity is so long, and that of the individual so brief, that we often see only the ebb of the advancing wave, and are thus discouraged. It is history that teaches us to hope."

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